

ORIGINAL



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BEFORE THE ARIZONA CORPORATIO

COMMISSIONERS

KRISTIN K. MAYES, Chairman
GARY PIERCE
PAUL NEWMAN
SANDRA D. KENNEDY
BOB STUMP

IN THE MATTER OF THE
APPLICATION OF FARMERS
WATER CO., AN ARIZONA
CORPORATION, FOR A
DETERMINATION OF THE
CURRENT FAIR VALUE OF ITS
UTILITY PLANT AND PROPERTY
AND FOR INCREASES IN ITS RATES
AND CHARGES FOR UTILITY
SERVICE.

DOCKET NO. W-01654A-08-0502

**FARMERS WATER CO.'S NOTICE
OF FILING ERRATA**

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AZ CORP COMMISSION
DOCKET CONTROL

On September 25, 2009, Farmers Water Co. ("Farmers Water") filed the
Rebuttal Testimonies of Thomas J. Bourassa and Heather Triana in the above-
referenced matter.

Farmers Water subsequently discovered errors in the testimony portions of the
Rebuttal Testimonies and hereby files corrected Testimonies.

RESPECTFULLY SUBMITTED this 30th day of September, 2009.

SNELL & WILMER L.L.P.

Arizona Corporation Commission

DOCKETED

SEP 30 2009

DOCKETED BY

By

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ORIGINAL and thirteen (13) copies
filed this 30th day of September, 2009, with:

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Docket Control
Arizona Corporation Commission
1200 West Washington Street
Phoenix, AZ 85007

COPY of the foregoing hand-delivered on
this 30th day of September, 2009, to:

Lynn Farmer, Hearing Division
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ARIZONA CORPORATION COMMISSION
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COPY of the foregoing mailed on
this 30th day of September, 2009, to:

Judge Jane L. Rodda
ARIZONA CORPORATION COMMISSION
400 West Congress, Suite 218
Tucson, AZ 85701

By _____
10589758.1

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2
3 COMMISSIONERS

4 KRISTIN K. MAYES—Chairman
5 GARY PIERCE
6 PAUL NEWMAN
7 SANDRA D. KENNEDY
8 BOB STUMP

9 IN THE MATTER OF THE APPLICATION
10 OF FARMERS WATER CO., AN ARIZONA
11 CORPORATION, FOR A
12 DETERMINATION OF THE CURRENT
13 FAIR VALUE OF ITS UTILITY PLANT
14 AND PROPERTY AND FOR INCREASES
15 IN ITS RATES AND CHARGES FOR
16 UTILITY SERVICE.

DOCKET NO. W-01654A-08-0502

17 **CORRECTED REBUTTAL TESTIMONY OF THOMAS J. BOURASSA**
18 **ON BEHALF OF**
19 **FARMERS WATER COMPANY**

20 **RATE BASE, INCOME STATEMENT,**
21 **REVENUE REQUIREMENT, RATE DESIGN**

22 **September 25, 2009**
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1 **I. INTRODUCTION AND QUALIFICATIONS**

2
3 **Q. PLEASE STATE YOUR NAME AND ADDRESS.**

4 A. My name is Thomas J. Bourassa. My business address is 139 W. Wood Drive,
5 Phoenix, Arizona 85029.
6

7 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS CASE?**

8 A. On behalf of the applicant, Farmers Water Company ("Farmers" or the
9 "Company").
10

11 **Q. HAVE YOU PREVIOUSLY SUBMITTED DIRECT TESTIMONY IN THE**
12 **INSTANT CASE?**

13 A. Yes. My direct testimony was submitted in support of the initial application filed
14 in this matter.
15

16
17 **Q. WHAT IS THE PURPOSE OF THIS REBUTTAL TESTIMONY?**

18 A. I will provide rebuttal testimony in response to the direct filing by Arizona
19 Corporation Commission Utilities Division Staff ("Staff"). More specifically, my
20 rebuttal testimony relates to the determination of operating income, rate base,
21 income statement and rate design.
22

23 **Q. WHAT IS THE REVENUE REQUIREMENT ADJUSTMENT THAT THE**
24 **COMPANY IS PROPOSING IN ITS REBUTTAL FILING?**
25
26

1 A. The Company is requesting an increase in revenues of \$196,121, an increase of
2 34.82 percent for a total revenue requirement of \$759,404.

3
4 **Q. HOW DOES THIS COMPARE WITH THE REVENUE REQUIREMENT**
5 **PROPOSED BY THE COMPANY IN ITS DIRECT TESTIMONY?**

6 A. In the direct filing, the Company requested an increase in revenues of \$200,072,
7 an increase of 35.52% for a total revenue requirement of \$763,355.

8
9 **Q. WHY IS THE REVENUE REQUIREMENT IN THIS REBUTTAL**
10 **TESTIMONY LOWER THAN IN THE DIRECT TESTIMONY**

11 A. The Company has adopted a number of adjustments recommended by Staff, as
12 well as proposed a number of adjustments of its own. The Company continues to
13 propose a 10% operating margin as the Company's rate base is negative and a rate
14 of return approach would not be meaningful. Farmer's rebuttal Original Cost Rate
15 Base ("OCRB") and Fair Value Rate Base ("FVRB") have not changed from its
16 direct filing. The OCRB is \$ (748,646). The Company continues to request that
17 its OCRB be treated as its FVRB.

18
19 **II. REVENUE REQUIREMENT**

20
21 **Q. WHAT ARE THE REVENUE REQUIREMENTS AND RATE INCREASES**
22 **FOR THE COMPANY AND STAFF?**

23 A. The proposed revenue requirements and proposed rate increases are as follows:
24
25

	<u>Revenue Requirement</u>	<u>Revenue Incr.</u>	<u>% Increase</u>
Company-Direct	\$ 763,355	\$ 200,072	35.52%
Staff	\$ 710,333	\$ 147,050	26.11%
Company Rebuttal	\$ 759,404	\$ 196,121	34.82%

Q. WHAT IS THE COMPANY'S PROPOSED OPERATING MARGIN?

A. The Company is proposing an operating margin 10.00%. This is at the low end of the range (10% to 20%) typically recommended by Staff in cases where an operating margin approach is utilized to determine the revenue requirement. Staff also proposes a 10% percent operating margin.¹

III. RATE BASE

Q. WOULD YOU PLEASE IDENTIFY THE PARTIES' RESPECTIVE RATE BASE RECOMMENDATIONS AT THIS STAGE OF THE PROCEEDING?

A. The rate bases proposed by all parties in the case are as follows:

	<u>OCRB</u>	<u>FVRB</u>
Company-Direct	\$(748,646)	\$(748,646)
Staff	\$(748,646)	\$(748,646)
Company Rebuttal	\$(748,646)	\$(748,646)

¹ See Direct Testimony of Charles R. Myhlhousen ("Myhlhousen Direct") at 4.

1 Q. WOULD YOU PLEASE DISCUSS THE COMPANY'S PROPOSED OCRB,
2 AND IDENTIFY ANY ADJUSTMENTS THAT YOU HAVE ACCEPTED
3 FROM STAFF?

4 A. Yes. Staff has not proposed any adjustments to the Company's OCRB. Both the
5 Company and Staff are in agreement on the rate base.
6
7

8 IV. INCOME STATEMENT
9

10 Q. WOULD YOU PLEASE DISCUSS THE COMPANY'S PROPOSED
11 ADJUSTMENTS TO REVENUES AND EXPENSES AND IDENTIFY ANY
12 ADJUSTMENTS YOU HAVE ACCEPTED FROM STAFF?

13 A. The Company rebuttal adjustments are detailed on rebuttal schedule C-2, pages
14 1-6. The rebuttal income statement with adjustments is shown on rebuttal
15 schedule C-1, pages 1 and 2.
16

17 In rebuttal C-2 adjustment number 1, the depreciation expense is annualized.
18 Depreciation expense has decreased from the Company's direct filing reflecting a
19 correction to the amortization of contributions-in-aid of construction ("CIAC")
20 based on the Staff testimony.² Both Staff and the Company propose the same
21 level of depreciation expense.
22

23 Q. DO ALL PARTIES RECOMMEND THE SAME DEPRECIATION RATES?

24 A. Yes.
25

² Myhlhousen Direct at 7.

1
2 **Q. PLEASE CONTINUE.**

3 A. Rebuttal C-2 adjustment number 2 reflects the adjustment to property taxes using
4 the Company's rebuttal proposed revenues. The Company and Staff are in
5 agreement on the method of computing property taxes. This is the same method
6 that the Commission has consistently used in past cases.³ This method includes
7 two years of adjusted revenues plus one year of proposed revenues. Using this
8 methodology, I computed the property taxes based on the Company's proposed
9 rebuttal revenues. I have modified the property tax rate and assessment ratio to
10 match Staff so the reason for the difference in property taxes is due the difference
11 between the Company and Staff proposed revenues in the instant case.

12
13 Rebuttal C-2 adjustment number 3 increases water testing expense services reflect
14 the Company's adoption of Staff's proposed adjustment.⁴

15
16 Rebuttal C-2 adjustment number 4 reduces repairs and maintenance expense to
17 reflect the Company's adoption of the level of repairs and maintenance proposed
18 by Staff. The level of repairs and maintenance proposed by Staff is a 3-year
19 historical average of repairs and maintenance.⁵ While I generally disagree with
20 the use of averages because averages are not known and measurable and are
21 highly subjective, the Company has adopted Staff's proposal to help minimize
22 disputes between the parties.

23
24
25 ³ See Direct Testimony of Thomas J. Bourassa ("Bourassa Direct") at 10.

⁴ Myhlhausen Direct at 6.

⁵ *Id.* at 7.

1 Rebuttal C-2 adjustment number 5 reflects income taxes calculated at the
2 Company's proposed revenue and expense levels.
3

4 **C. Salaries and Wages**

5 **Q. PLEASE COMMENT ON THE PROPOSAL OF STAFF TO DECREASE**
6 **SALARIES AND WAGES.**

7 A. Staff proposes to decrease salaries and wages by \$14,586 because this amount
8 consists of bonuses paid to employees and, since the Company lost money during
9 the test year, bonuses are not appropriate.⁶ The Company disagrees with Staff's
10 proposal for two reasons. First, Staff "bonus" amount is too high and does not
11 reflect the amount of "bonuses" actually recorded on the Company's books during
12 the test year. There were only \$4,259 of "bonuses" recorded in test year salaries
13 and wages. Secondly, as explained by Company witness Ms. Heather Triana,
14 these "bonuses" are a regular part of the employee compensation and are not
15 performance bonuses. These are part of the employee's normal compensation
16 package and are non-discretionary.
17

18 **Q. PLEASE EXPLAIN HOW THE COMPANY DERIVED ITS ANNUALIZED**
19 **TEST YEAR WAGES AND SALARIES.**

20 A. Attached at Exhibit 1 is the Company's computation of annualized wages and
21 salaries. As you will find in the column labeled as "bonus" there are only \$4,259
22 of "bonus" payments and a total of 168,280 of regular wages. These two amounts
23 were added to the test year wages to derive the 2007 total wages of \$172,479. At
24

25

⁶ Myhlhousen Direct at 5.

1 the bottom of the exhibit is a reconciliation of the recorded test year wages and
2 salaries amount and the total 2007 wages in the schedule.

3
4 During 2008, the Company provided to employees scheduled wage increases of
5 5%. So, to annualize wages and salaries based on this known and measurable
6 change to the test year, the 2007 total wages (including the so-called "bonuses")
7 were increased by 5%. As shown, the total annualized wages were \$180,508.
8 The \$180,508 is the amount of the Company's proposed wages and salaries. As a
9 side note, the Company also proposed to re-class payroll taxes and worker's
10 compensation insurance to the accounts Taxes Other than Income and Insurance –
11 Worker's Compensation which had been recorded in the account Wages and
12 Salaries.

13
14 **Q. HOW DID STAFF DERIVE THE \$14,589?**

15 **A.** It is not entirely clear and I will leave it to Staff to explain. However, as shown in
16 Exhibit 1 as well as the Company records, only \$4,259 of separately paid "bonus"
17 wages were paid and were recorded on the books of the Company during the test
18 year.

19
20 **D. Rate Case Expense**

21 **Q. ARE STAFF AND THE COMPANY IN AGREEMENT ON RATE CASE**
22 **EXPENSE?**

23 **A.** Yes.
24
25

1 Q. PLEASE COMMENT ON STAFF'S TESTIMONY REGARDING
2 "NORMALIZATION" VERSUS "AMORTIZATION" OF RATE CASE
3 EXPENSE.

4 A. Staff asserts that rate case expense should be "normalized".⁷ In other words, if a
5 utility expends \$150,000 for rate case expense, the expense is normalized to
6 \$30,000 annually using a 5 year normalization period, and the utility files for rate
7 relief before the end of 5 years, the utility forfeits the amount of rate case expense
8 that it did not recover through rates. The normalization approach penalizes the
9 Company for seeking new rates before the end of the normalization period.

10
11 Q. DO YOU AGREE WITH STAFF'S VIEW THAT A "NORMALIZED"
12 AMOUNT OF RATE CASE EXPENSE SHOULD BE INCLUDED IN
13 OPERATING EXPENSES?

14 A. No. Rate case expense is incurred outside the test year, paid for by the utility up-
15 front for the specific purpose of obtaining rate relief, and is a non-typical or non-
16 recurring expense. As a consequence rate case expense should be treated like a
17 deferred regulatory asset. In fact, this is how rate case expense has been treated by
18 Staff and the Commission in the past. Like other regulatory assets (*e.g.*, plant-in-
19 service), the costs of deferred regulatory assets are recovered over time.
20 Presumably, if the amortization period for rate case expense (as with depreciation
21 expense for plant-in-service) approximates the time between when new rates are
22 set, the utility will recover the expense in full with neither an over collection nor
23 under collection of the expense. If the Commission is concerned about over or
24 under collection of rate case expense, it could approve a rate case expense
25 surcharge which would cease when the utility fully recovers its expense.

⁷ Myhlhousen Direct at 9.

1
2 **E. Income Taxes**

3 **Q. PLEASE COMMENT ON THE PROPOSAL OF STAFF TO EXCLUDE**
4 **INCOME TAXES IN THE DETERMINATION OF THE REVENUE**
5 **REQUIREMENT.**

6 A. Staff proposes to exclude income taxes from the determination of the revenue
7 requirement because Farmers is a Sub-Chapter "S" corporation and is a pass-
8 through entity for income tax purposes.⁸ Staff's argument rests on the fact that
9 Farmers itself does not pay income taxes at the company level, rather the taxable
10 income and tax liability passes through to its shareholders who must pay the tax.
11 While it may be true that the Company itself does not pay taxes, the basis for
12 Staff's exclusion of income taxes is without merit.

13
14 Let me further explain. First, the income tax liability arises from the taxable
15 income of Farmers and it is directly attributable to Farmers. And while the tax
16 liability flows through to the shareholders, the Company still pays the tax by
17 reimbursing the shareholder for the tax that must be paid. In fact, there exists an
18 agreement between Farmers and its shareholders that an amount that is at least
19 equal to the sum of (a) a percentage of its earnings and profits (as determined for
20 Federal Income tax purposes) that is the same as the highest Federal and Arizona
21 income tax rate on ordinary income for individuals and (b) a percentage of its net
22 long-term capital gains and net gains for the sale or exchange of assets, the gain
23 from which are taxable under Code Section 1231, which is the same as the highest
24 Federal and Arizona income tax rate on such gains for individuals attributed and

25

⁸ Myhlhousen Direct at 8.

1 arising from Farmers must be paid by Farmers. Third, the required operating
2 income for a tax pass-through entity such as an S-Corp is not the same as that for a
3 C-Corp under Staff recommendation resulting in an S-Corp's being treated
4 differently when there is no sound justification to do so. An S-Corp receives a
5 lower revenue requirement and operating income than a C-Corp resulting in
6 inequities because payment for the tax must come from somewhere. Ultimately
7 the tax payment comes from the S-Corp itself because shareholders insure their
8 taxes are paid by the entities that generate them. In fact, the situation is analogous
9 to a subsidiary C-Corp utility of a parent holding company whose tax return is
10 consolidated with the parent. The individual C-Corp utility does not file a separate
11 tax return, yet this Commission has traditionally allowed income taxes of the
12 utility to be computed on a stand-alone basis and included in the revenue
13 requirement. Fourth, rate payers receive an unjustified windfall from the lower
14 revenue requirement and operating income when income taxes are excluded.

15
16 Finally, rate making should be applied in a manner which produces reasonable,
17 realistic and non-discriminatory results no matter what the legal form of the utility
18 is. Inclusion or exclusion of income taxes should not be limited to technical
19 distinctions, rather it should be based on whether it is fair and does not
20 discriminate. The income taxes required to be paid by shareholders of an S-Corp
21 on a utility's income are inescapable business outlays that are directly attributed to
22 the utility and are directly comparable with similar taxes paid by C corporations.

23
24 **Q. WHAT THEN IS THE ADVANTAGE OF A TAX PASS-THROUGH**
25 **ENTITY VERSUS A NON-TAX PASS THROUGH ENTITY?**

1 A. Shareholders in an S-Corp avoid double taxation. A C-Corp is taxed on income
2 and its shareholders are taxed on the dividends received. However, the distinction
3 does not disadvantage rate payers. To the extent shareholders of S-Corp's avoid
4 taxation on dividends, rate payers are not harmed. After all, it's the shareholders
5 who pay the tax on dividends from C-Corps, not the rate payers. Taxes on
6 dividends are not considered as part of the revenue requirement.

7
8 A second advantage of a tax pass-through entity is that net losses (as well as net
9 income) pass-through to the owners. A tax pass through entity is a particularly
10 attractive form for start-up companies (e.g.. utilities with new CC&N's) because
11 the tax losses can be taken advantage of immediately by the owners who typically
12 have to subsidize the company in the early years with income from their other
13 sources. This can improve the ability to raise capital from the owners for start-ups
14 as they can then take advantage of the tax losses immediately. But, regardless, the
15 ratepayer is not disadvantaged in anyway. Rather there is a more likely chance of
16 a healthier "start-up" utility as a result. And a healthy utility is always a benefit to
17 ratepayers and in the public interest.

18
19 V. RATE DESIGN (H SCHEDULES)

20
21 Q. **WHAT ARE THE COMPANY'S REBUTTAL PROPOSED RATES?**

22 A. The monthly charges at proposed rates are listed below.

Meter Size (All Classes)	Monthly Minimum	Gallons included in Monthly Minimum
5/8	\$ 8.26	0

1	3/4	\$ 8.26	0
2	1	\$ 10.32	0
3	1 1/2	\$ 20.64	0
4	2	\$ 33.02	0
5	3	\$ 66.04	0
6	4	\$ 103.19	0
7	6	\$ 206.38	0

The Company's proposed commodity charges and tiers by meter size are:

<u>Meter Size</u>	<u>Tier (gallons)</u>	<u>Charge per 1,000 gallons</u>
5/8 and 3/4 - Residential	1 to 4,000	\$ 1.45
	4,001 to 10,000	\$ 1.92
	Over 10,000	\$ 2.49
5/8 and 3/4 - Com., Ind.	1 to 10,000	\$ 1.92
	Over 10,000	\$ 2.49
1 - Res., Com., Ind., MF	1 to 12,500	\$ 1.92
	Over 12,500	\$ 2.49
1 1/2 - Res., Com., Ind., MF	1 to 25,000	\$ 1.92
	Over 25,000	\$ 2.49
2 - Res., Com., Ind., MF	1 to 40,000	\$ 1.92
	Over 40,000	\$ 2.49
3 - Res., Com., Ind., MF	1 to 80,000	\$ 1.92

		Over 80,000	\$ 2.49
4 - Res.,Com., Ind., MF	1 to 125,000	\$ 1.92	
	Over 125,000	\$ 2.49	
6 - Res.,Com., Ind., MF	1 to 250,000	\$ 1.92	
	Over 250,000	\$ 2.49	

(Res. = Residential, Com. = Commercial, Ind. = Industrial, MF = Multi-family)

The proposed standpipe rate and bulk water rate is \$ 2.49 per 1,000 gallons.

Q. HOW DOES THE COMPANY PROPOSED RATE DESIGN COMPARE TO STAFF?

A. Both Staff and the Company propose very similar rate designs. The 5/8 inch and 3/4 residential meters have an inverted three tier rate design. The 5/8 inch and 3/4 inch commercial and irrigation meters have an inverted two tier design. The 1 inch and larger meters have a two tier rate design. The monthly minimums for the 5/8 inch and 3/4 inch meter sizes are the same and the larger meter sizes are half-scaled on the relative flows of a 5/8 inch meter under Staff and the Company's rate designs. Also, the proposed break-over points for the various meter sizes and classes are the same.

The primary difference in the rate designs is that the Company proposes monthly minimums for standpipe service (construction water and bulk) based on the meter size. For example, the 2 inch standpipe service has a proposed monthly minimum of \$33.02 which is the proposed monthly minimum for a 2 inch meter. Staff does

not propose monthly minimums for standpipe service.

Q. ARE THERE ANY DISPUTES BETWEEN STAFF AND THE COMPANY ON THE COMPANY PROPOSED MISCELLANEOUS CHARGES AND METER AND SERVICE LINE INSTALLATION CHARGES?

A. Staff is recommending that deposit interest of 6 percent while the Company's rebuttal recommendation is to lower it to 2 percent. The Company believes a 6 percent rate is too high given the low interest rates currently provided by banks on certificates of deposits ("CD") and money markets.

Q. WHAT ARE CURRENT CD RATES?

A. The current annual yield on a 5 year CD's is 2.66 percent (Wall Street Journal, September 3, 2009). The current annual yield on a 6 month CD is 0.36 percent (Federal Reserve, September 1, 2009. Finally, the current annual yield on the money market is 1.16 percent (Wall Street Journal, September 3, 2009)

Q. PLEASE CONTINUE.

A. The Company has proposed a \$50 meter box re-inspection fee whereas Staff has proposed the charge be at cost. The \$50 fee proposed by the Company is based on cost and it would be simpler to have one stated fee than to track the employee time, gas, and wear and tear on transportation equipment for each instance.

Q. WHY IS THE COMPANY PROPOSING THIS FEE?

A. The Company provides one "free" new meter inspection during each of the three construction phases but has to re-inspect the meter when damage occurs after the inspection and the meter is subsequently repaired. Besides recovery of underlying

1 service costs, another purpose of this fee is to deter unnecessary damage to meters
2 during the construction of new homes and after the meter has been inspected.
3

4 **Q. DO THE COMPANY AND STAFF AGREE ON THE COMPANY**
5 **PROPOSED METER AND SERVICE LINE INSTALLATION CHARGES?**

6 A. Yes. Staff and the Company's proposed charges are the same. I would note,
7 however, that the present charges set forth on Staff Schedule CRM-12 are
8 incorrect.

9 **Q. DOES THAT CONCLUDE YOUR REBUTTAL TESTIMONY?**

10 A. Yes.

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EXHIBIT A

Farmers Water Co.
Salaries and Wages Annualization

Exhibit 1

Line No.	Name	Position	2007 Base Wages	2007 Bonus	2007 Total Wages	2008 Wage Increase	Annualized Wages	FICA 6.20%	Medicare 1.45%	Unempl Fed 0.80%	Unempl State 2.70%	Total
1	XXXXXXXXXXXX	CEO	\$ 50,000	\$ -	\$ 50,000	5%	\$ 52,500	\$ 3,255	\$ 761	\$ 56	\$ 189	\$ 4,261
2	XXXXXXXXXXXX	General Manager	50,289	1,860	52,149	5%	54,756	3,395	794	56	189	4,434
3	XXXXXXXXXXXX	Field Tech	33,461	1,231	34,692	5%	36,427	2,258	528	56	189	3,032
4	XXXXXXXXXXXX	Meter Reader	24,989	843	25,832	5%	27,124	1,682	393	56	189	2,320
5	XXXXXXXXXXXX	Secretary	7,180	325	7,505	5%	7,880	489	114	56	189	848
6	XXXXXXXXXXXX	Other Misc Wages	480		480		-	-	-	56	189	245
7	Totals		\$ 168,399	\$ 4,259	\$ 170,658		\$ 178,687	\$ 11,079	\$ 2,591	\$ 336	\$ 1,134	\$ 15,140
8	Employee Wages Other (housing)		\$ 1,821		\$ 1,821		\$ 1,821					
9	Totals		\$ 168,220	\$ 4,259	\$ 172,479		\$ 180,508					
10	Total Annualized Wages						\$ 180,508					
11	Wages During Test Year						\$ 172,479					
12	Increase in Salaries and Wages (C-2 Adjustment 6a in Direct Filing)						\$ 8,029					
13	Total Annualized PR taxes						\$ 15,140					
14	PR taxes During Test Year						\$ 13,398					
15	Increase in PR Taxes (C-2 Adjustment 6b in Direct Filing)						\$ 1,741					
16												
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Reconciliation of Test Year Salaries and Wages

Salaries and Wages (from line 12 above)	\$ 172,479
Payroll Taxes (see adjusted TY Taxes Other than Income and C-2 Adjustment 6a in Direct)	13,398
Worker's Compensation (see adjusted TY Insurance - Worker's Comp. and C-2 Adjustment 7b)	7,832
Actual Wages and Salaries Per Direct Schedule C-1	\$ 193,709
Actual Test Year Wages and Salaries Per Direct Schedule C-1	\$ 193,709
Adjusted Test Year Wages and Salaries per Direct C-1	\$ 180,508
Total Adjustments (see C-2 Adjustments 6a, 7a, and 8a)	\$ 13,201

Farmers Water Company
Test Year Ended September 30, 2007
Computation of Increase in Gross Revenue
Requirements As Adjusted

Exhibit
Rebuttal Schedule A-1
Page 1
Witness: Bourassa

Line
No.

1	Fair Value Rate Base	\$	(748,646)
2			
3	Adjusted Operating Income		(86,523)
4			
5	Current Rate of Return		NM
6			
7	Required Operating Income	\$	75,940
8			
9	Proposed Operatin Margin		10.00%
10			
11	Operating Income Deficiency	\$	142,464
12			
13	Gross Revenue Conversion Factor		1.3766
14			
15	Increase in Gross Revenue Revenue Requirement	\$	196,121
16			
17	Test Year Revenues	\$	563,283
18	Increase in Gross Revenue Revenue Requirement	\$	196,121
19	Proposed Revenue Requirement	\$	759,404
20	Percent Increase		34.82%

22	Customer	Present	Proposed	Dollar	Percent
23	<u>Classification</u>	<u>Rates</u>	<u>Rates</u>	<u>Increase</u>	<u>Increase</u>
24	5/8 Inch Residential	\$ 319,061	\$ 414,140	\$ 95,079	29.80%
25	1 Inch Residential	59,415	79,206	19,791	33.31%
26	5/8 Inch Commerical	4,826	6,559	1,933	41.79%
27	1 Inch Commerical	4,046	5,610	1,564	38.65%
28	1.5 Inch Commerical	4,162	5,934	1,772	42.59%
29	2 Inch Commerical	19,492	27,946	8,454	43.37%
30	3 Inch Commerical	2,511	3,977	1,467	58.41%
31	1.5 Inch Multi-family	6,572	9,395	2,823	42.95%
32	2 Inch Multi-family	53,791	77,762	23,972	44.56%
33	6 Inch Multi-family	14,214	21,723	7,509	52.82%
34	5/8 Inch Industrial	801	1,107	306	38.19%
35	1 Inch Industrial	4,142	6,101	1,960	47.32%
36	4 Inch Industrial	26,243	39,410	13,167	50.17%
37	2 Inch Standpipe	10,271	19,881	9,610	93.57%
38	6 Inch Standpipe	1,867	5,361	3,495	187.23%
39	Subtotal	\$ 531,212	\$ 724,112	\$ 192,899	36.31%
40	Revenue Annualization	19,125	23,176	4,051	21.18%
41	Miscellaneous Service Revenues	7,790	7,790	-	0.00%
42	Revenue Annualization Misc. Revenues	4,295	4,295	-	0.00%
43	Reconciling Difference (C-1 and H-1)	861	31	(830)	-96.40%
44	Total of Water Revenues	\$ 563,283	\$ 759,404	\$ 196,121	34.82%

45
46
47 SUPPORTING SCHEDULES:
48 Rebuttal B-1
49 Rebuttal C-1
50 Rebuttal C-3
51 Rebuttal H-1
52

Farmers Water Company
Test Year Ended September 30, 2007
Summary of Rate Base

Exhibit
Rebuttal Schedule B-1
Page 1
Witness: Bourassa

Line No.		Original Cost Rate base	Fair Value Rate Base
1			
2	Gross Utility Plant in Service	\$ 8,630,976	\$ 8,630,976
3	Less: Accumulated Depreciation	2,039,595	2,039,595
4			
5	Net Utility Plant in Service	\$ 6,591,381	\$ 6,591,381
6			
7	<u>Less:</u>		
8	Advances in Aid of		
9	Construction	6,874,915	6,874,915
10	Contributions in Aid of		
11	Construction	576,492	576,492
12	Accumulated Amortization of CIAC	(111,381)	(111,381)
13			
14	Customer Meter Deposits	-	-
15	Deferred Income Taxes & Credits	-	-
16		-	-
17			
18			
19	<u>Plus:</u>		
20	Unamortized Finance		
21	Charges	-	-
22	Deferred Regulatory Assets	-	-
23	Allowance for Working Capital	-	-
24			
25			
26	Total Rate Base	\$ (748,646)	\$ (748,646)
27			
28			
29			
30	<u>SUPPORTING SCHEDULES:</u>		
31	Rebuttal B-2		
32	Rebuttal B-5		
33			
34			
35			

Farmers Water Company
Test Year Ended September 30, 2007
Original Cost Rate Base Proforma Adjustments

Exhibit
Rebuttal Schedule B-2
Page 1
Witness: Bourassa

Line No.		Adjusted at End of Test Year	Proforma Adjustments Amount	Rebuttal Adjusted at end of Test Year
1	Gross Utility			
2	Plant in Service	\$ 8,630,976	-	\$ 8,630,976
3				
4	Less:			
5	Accumulated			
6	Depreciation	2,039,595	-	2,039,595
7				
8				
9	Net Utility Plant			
10	in Service	\$ 6,591,381		\$ 6,591,381
11				
12	Less:			
13	Advances in Aid of			
14	Construction	6,874,915	-	6,874,915
15				
16	Contributions in Aid of			
17	Construction (CIAC)	576,492	-	576,492
18				
19	Accumulated Amortization of CIAC	(111,381)	-	(111,381)
20				
21	Customer Meter Deposits	-	-	-
22	Deferred Income Taxes	-	-	-
23				
24				
25	Plus:			
26	Unamortized Finance			
27	Charges	-	-	-
28	Deferred Regulatory Assets	-	-	-
29	Allowance for Working Capital	-	-	-
30				
31	Total	<u>\$ (748,646)</u>		<u>\$ (748,646)</u>

SUPPORTING SCHEDULES:
Rebuttal B-2, pages 2-3

RECAP SCHEDULES:
Rebuttal B-1

Farmers Water Company
Test Year Ended September 30, 2007
Original Cost Rate Base Proforma Adjustments

Line No.		Proforma Adjustments			Adjusted at end of Test Year	Intentionally Left Blank			Rebuttal Adjusted at end of Test Year
		1	2	3		Intentionally Left Blank	Intentionally Left Blank	Intentionally Left Blank	
1	Gross Utility				\$ 8,630,976				\$ 8,630,976
2	Plant In Service								
3									
4	Less:								
5	Accumulated								
6	Depreciation				2,039,595				2,039,595
7									
8									
9	Net Utility Plant								
10	In Service				\$ 6,591,381	\$ -	\$ -	\$ -	\$ 6,591,381
11									
12	Less:								
13	Advances in Aid of								
14	Construction				6,874,915				6,874,915
15									
16	Contributions in Aid of								
17	Construction (CIAC)				576,492				576,492
18									
19	Accumulated Amort of CIAC				(111,381)				(111,381)
20									
21	Customer Meter Deposits				-				-
22	Deferred Income Taxes				-				-
23									
24									
25	Plus:								
26	Unamortized Finance								
27	Charges				-				-
28	Deferred Reg. Assets				-				-
29	Allowance for Working Capital				-				-
30									
31	Total				\$ (748,646)	\$ -	\$ -	\$ -	\$ (748,646)
32									
33									
34									
35									
36									
37									
38									
39									
40									

SUPPORTING SCHEDULES:
Rebuttal B-2, pages 3

Line No.	Plant-in-Service	Acct. No.	Description	ADJUSTMENT				Rebuttal Adjusted Original Cost
				A	B	C		
				Intentionally Left Blank	Intentionally Left Blank	Intentionally Left Blank		
1	Plant-in-Service							
2								
3								
4								
5								
6								
7								
8								
9								
10								
11								
12								
13								
14								
15								
16								
17								
18								
19								
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46								
47								
48								
49								
50								
51								
52								

\$	8,630,976	\$	-	\$	-	\$	-	\$	8,630,976
\$	8,630,976	\$	-	\$	-	\$	-	\$	8,630,976
\$	8,630,976	\$	-	\$	-	\$	-	\$	8,630,976

\$	8,630,976	\$	-	\$	-	\$	-	\$	8,630,976
\$	8,630,976	\$	-	\$	-	\$	-	\$	8,630,976
\$	8,630,976	\$	-	\$	-	\$	-	\$	8,630,976

\$	8,630,976	\$	-	\$	-	\$	-	\$	8,630,976
\$	8,630,976	\$	-	\$	-	\$	-	\$	8,630,976
\$	8,630,976	\$	-	\$	-	\$	-	\$	8,630,976

\$	8,630,976	\$	-	\$	-	\$	-	\$	8,630,976
\$	8,630,976	\$	-	\$	-	\$	-	\$	8,630,976
\$	8,630,976	\$	-	\$	-	\$	-	\$	8,630,976

\$	8,630,976	\$	-	\$	-	\$	-	\$	8,630,976
\$	8,630,976	\$	-	\$	-	\$	-	\$	8,630,976
\$	8,630,976	\$	-	\$	-	\$	-	\$	8,630,976

Line No.	Plant-in-Service	Acct. No.	Description	Direct Adjusted Accum. Depr.	A Intentionally Left Blank	B Intentionally Left Blank	Rebuttal Adjusted Accum. Depr.
1		301	Organization Cost	-	-	-	-
2		302	Franchise Cost	-	-	-	-
3		303	Land and Land Rights	-	-	-	-
4		304	Structures and Improvements	6,312	-	-	6,312
5		305	Collecting and Impounding Res.	323,736	-	-	323,736
6		306	Lake River and Other Intakes	269,905	-	-	269,905
7		307	Wells and Springs	-	-	-	-
8		308	Infiltration Galleries and Tunnels	-	-	-	-
9		309	Supply Mains	10,482	-	-	10,482
10		310	Power Generation Equipment	-	-	-	-
11		311	Electric Pumping Equipment	180,443	-	-	180,443
12		312	Water Treatment Equipment	-	-	-	-
13		313	Distrib. Reservoirs & Standpipe	873,694	-	-	873,694
14		314	Trans. and Distrib. Mains	166,418	-	-	166,418
15		315	Services	89,401	-	-	89,401
16		316	Meters	61,271	-	-	61,271
17		317	Hydrants	-	-	-	-
18		318	Backflow Prevention Devices	-	-	-	-
19		319	Other Plant and Misc. Equipment	-	-	-	-
20		320	Office Furniture and Fixtures	41,805	-	-	41,805
21		321	Transportation Equipment	16,127	-	-	16,127
22		322	Stores Equipment	-	-	-	-
23		323	Tools and Work Equipment	-	-	-	-
24		324	Laboratory Equipment	-	-	-	-
25		325	Power Operated Equipment	-	-	-	-
26		326	Communications Equipment	-	-	-	-
27		327	Miscellaneous Equipment	-	-	-	-
28		328	Other Tangible Plant	-	-	-	-
29		329	TOTALS	\$ 2,039,595	\$ -	\$ -	\$ 2,039,595
30		330	Accumulated Depreciation per Direct				\$ 2,039,595
31		331	Increase (decrease) in Plant-in-Service				\$ -
32		332	Adjustment to Plant-in-Service				\$ -
33		333	SUPPORTING SCHEDULES				
34		334	Direct B-2				

Farmers Water Company
Test Year Ended September 30, 2007
Computation of Working Capital

Exhibit
Rebuttal Schedule B-5
Page 1
Witness: Bourassa

Line
No.

1	Cash Working Capital (1/8 of Allowance		
2	Operation and Maintenance Expense)	\$	45,345
3	Pumping Power (1/24 of Pumping Power)		-
4	Purchased Water (1/24 of Purchased Water)		725
5	Prepays/Deferred Debits		(703)
6	Materials & Supplies		-

7

8

9	Total Working Capital Allowance	\$	45,367
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10

11

12	Working Capital Requested	\$	-
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13

14

15 SUPPORTING SCHEDULES: RECAP SCHEDULES:

16

Rebuttal B-1

17

Farmers Water Company
Test Year Ended September 30, 2007
Income Statement

Exhibit
Rebuttal Schedule C-1
Page 1
Witness: Bourassa

Line No.		Direct Test Year Adjusted Results	Adjustment	Rebuttal Test Year Adjusted Results	Proposed Rate Increase	Rebuttal Adjusted with Rate Increase
1	Revenues					
2	Metered Water Revenues	\$ 551,198	\$ -	\$ 551,198	\$ 196,121	\$ 747,319
3	Unmetered Water Revenues	-	-	-	-	-
4	Other Water Revenues	12,085	-	12,085	-	12,085
5		<u>\$ 563,283</u>	<u>\$ -</u>	<u>\$ 563,283</u>	<u>\$ 196,121</u>	<u>\$ 759,404</u>
6	Operating Expenses					
7	Salaries and Wages	\$ 180,508	-	\$ 180,508	-	\$ 180,508
8	Purchased Water	-	-	-	-	-
9	Purchased Power	17,400	-	17,400	-	17,400
10	Chemicals	-	-	-	-	-
11	Repairs and Maintenance	76,477	(10,764)	65,713	-	65,713
12	Office Supplies and Expense	15,427	-	15,427	-	15,427
13	Outside Services	15,105	-	15,105	-	15,105
14	Water Testing	11,154	365	11,519	-	11,519
15	Rents	-	-	-	-	-
16	Transportation Expenses	2,018	-	2,018	-	2,018
17	Insurance - General Liability	3,317	-	3,317	-	3,317
18	Insurance - Worker's Comp.	7,832	-	7,832	-	7,832
19	Insurance - Health and Life	22,691	-	22,691	-	22,691
20	Reg. Commission Exp. - Rate Case	15,000	-	15,000	-	15,000
21	Miscellaneous Expense	8,494	-	8,494	-	8,494
22	Depreciation Expense	240,272	(1,687)	238,585	-	238,585
23	Taxes Other Than Income	15,140	-	15,140	-	15,140
24	Property Taxes	27,334	8,779	36,113	-	36,113
25	Income Tax	(25,727)	672	(25,055)	53,658	28,602
26						
27	Total Operating Expenses	<u>\$ 632,441</u>	<u>\$ (2,635)</u>	<u>\$ 629,806</u>	<u>\$ 53,658</u>	<u>\$ 683,464</u>
28	Operating Income	<u>\$ (69,159)</u>	<u>\$ 2,635</u>	<u>\$ (66,523)</u>	<u>\$ 142,464</u>	<u>\$ 75,940</u>
29	Other Income (Expense)					
30	Interest Income	-	-	-	-	-
31	Other income	-	-	-	-	-
32	Gain on Disposal Fixed Assets	-	-	-	-	-
33	Interest Expense	-	-	-	-	-
34	Other Expense	-	-	-	-	-
35						
36	Total Other Income (Expense)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
37	Net Profit (Loss)	<u>\$ (69,159)</u>	<u>\$ 2,635</u>	<u>\$ (66,523)</u>	<u>\$ 142,464</u>	<u>\$ 75,940</u>

SUPPORTING SCHEDULES:
Rebuttal C-1 page 2

RECAP SCHEDULES:
Rebuttal A-1

Farmers Water Company
Test Year Ended September 30, 2007
Income Statement

Exhibit
Rebuttal Schedule C-1
Page 2
Witness: Bourassa

Line No.		Direct Test Year Adjusted Results	1 Depreciation Expense	2 Property Taxes	3 Water Testing	4 Repairs and Maintenance	5 Income Taxes	Rebuttal Test Year Adjusted Results	Proposed Rate Increase	Rebuttal Adjusted with Rate Increase
1	Revenues									
2	Metered Water Revenues	\$ 551,198						\$ 551,198	\$ 196,121	\$ 747,319
3	Unmetered Water Revenues									
4	Other Water Revenues	12,085						12,085		12,085
5		\$ 563,283	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 563,283	\$ 196,121	\$ 759,404
6	Operating Expenses									
7	Salaries and Wages	\$ 180,508						\$ 180,508		\$ 180,508
8	Purchased Water									
9	Purchased Power	17,400						17,400		17,400
10	Chemicals									
11	Repairs and Maintenance	76,477			(10,764)			65,713		65,713
12	Office Supplies and Expense	15,427						15,427		15,427
13	Outside Services	15,105						15,105		15,105
14	Water Testing	11,154				365		11,519		11,519
15	Rents									
16	Transportation Expenses	2,018						2,018		2,018
17	Insurance - General Liability	3,317						3,317		3,317
18	Insurance - Worker's Comp.	7,832						7,832		7,832
19	Insurance - Health and Life	22,691						22,691		22,691
20	Reg. Commission Exp. - Rate Case	15,000						15,000		15,000
21	Miscellaneous Expense	8,494						8,494		8,494
22	Depreciation Expense	240,272	(1,687)					238,585		238,585
23	Taxes Other Than Income	15,140						15,140		15,140
24	Property Taxes	27,334		8,779				36,113		36,113
25	Income Tax	(25,727)					672	(25,055)	53,658	28,602
26										
27	Total Operating Expenses	\$ 632,441	\$ (1,687)	\$ 8,779	\$ (10,764)	\$ 365	\$ 672	\$ 629,806	\$ 53,658	\$ 683,464
28	Operating Income	\$ (69,159)	\$ 1,687	\$ (8,779)	\$ 10,764	\$ (365)	\$ (672)	\$ (66,523)	\$ 142,464	\$ 75,940
29	Other Income (Expense)									
30	Interest Income									
31	Other Income									
32	Gain on Disposal Fixed Assets									
33	Interest Expense									
34	Other Expense									
35										
36	Total Other Income (Expense)									
37	Net Profit (Loss)	\$ (69,159)	\$ 1,687	\$ (8,779)	\$ 10,764	\$ (365)	\$ (672)	\$ (66,523)	\$ 142,464	\$ 75,940

SUPPORTING SCHEDULES:
Rebuttal C-2

RECAP SCHEDULES:
Rebuttal C-1, page 1

Exhibit
Rebuttal Schedule C-2
Page 1
Witness: Bourassa

Line No.	1	2	3	4	5	6	Subtotal
	Depreciation Expense	Property Taxes	Repairs and Maintenance	Water Testing	Income Taxes		
1	(1,687)	8,779	365	(10,764)	672		(2,635)
2							
3							
4							
5							
6							
7							
8	1,687	(8,779)	(365)	10,764	(672)	-	2,635
9							
10							
11							
12							
13							
14							
15							
16	1,687	(8,779)	(365)	10,764	(672)	-	2,635
17							
18							
19							
20							
21							
22							
23							
24							
25							
26							
27	-	-	-	-	-	-	2,635
28							
29							
30							
31							
32							
33							
34							
35	-	-	-	-	-	-	2,635
36							

Line	No.	Description	Proforma Adjustments			
			Adjusted original Cost	Intentionally Left Blank	Intentionally Left Blank	Depreciation Expense
1	1	Acct. No.				
2	2	301 Organization Cost	6,893			-
3	3	302 Franchise Cost	-			-
4	4	303 Land and Land Rights	-			-
5	5	304 Structures and Improvements	14,565			485
6	6	307 Wells and Springs	694,075			23,113
7	7	311 Electric Pumping Equipment	269,905			33,738
8	8	320 Water Treatment Equipment	-			-
9	9	320.1 Water Treatment Plants	-			-
10	10	320.2 Chemical Solution Feeders	10,482			-
11	11	330 Distribution Reservoirs & Standpipe	-			-
12	12	330.1 Storage Tanks	487,978			2,096
13	13	330.2 Pressure Tanks	-			-
14	14	331 Transmission and Distribution Mains	5,821,757			10,389
15	15	333 Services	806,566			-
16	16	334 Meters	198,942			116,435
17	17	335 Hydrants	233,265			26,859
18	18	336 BackFlow Prevention Devices	-			16,572
19	19	339 Plant Structures and Improvements	-			-
20	20	340 Office Furniture and Fixtures	54,488			-
21	21	340.1 Computers and Software	52,060			-
22	22	341 Transportation Equipment	-			-
23	23	342 Stores Equipment	-			-
24	24	343 Tools and Work Equipment	-			-
25	25	344 Laboratory Equipment	-			-
26	26	345 Power Operated Equipment	-			-
27	27	346 Communications Equipment	-			-
28	28	347 Miscellaneous Equipment	-			-
29	29	348 Other Tangible Plant	-			-
30	30	Subtotal Plant	\$ 8,630,976	\$ -	\$ -	\$ 255,662
31	31	Post Test Year plant				
32	32					
33	33					
34	34					
35	35					
36	36					
37	37					
38	38					
39	39					
40	40					
41	41					
42	42					
43	43					
44	44	Total Plant	\$ 8,630,976	\$ -	\$ -	\$ 255,662
45	45					
46	46	Less: Amortization of Contributions	\$ 576,492	\$ 576,492	2,962.1%	\$ (17,077)
47	47					
48	48	Total Depreciation Expense				\$ 238,585
49	49					
50	50	Adjusted Test Year Depreciation Expense				240,272
51	51					(1,687)
52	52	Increase (decrease) in Depreciation Expense				\$ (1,687)
53	53					
54	54	Adjustment to Revenues and/or Expenses				\$
55	55					
56	56	SUPPORTING SCHEDULE				
57	57	Rebutal B-2, page 3				

Farmers Water Company
Test Year Ended September 30, 2007
Adjustment to Revenues and/or Expenses
Adjustment Number 2

Exhibit
Rebuttal Schedule C-2
Page 3
Witness: Bourassa

Line
No.

1	<u>Adjust Property Taxes to Reflect Proposed Revenues:</u>	
2		
3	Adjusted Revenues in year ended 09/30/2008	\$ 563,283
4	Adjusted Revenues in year ended 09/30/2008	563,283
5	Proposed Revenues	<u>759,404</u>
6	Average of three year's of revenue	\$ 628,656
7	Average of three year's of revenue, times 2	\$ 1,257,313
8	Add:	
9	Construction Work in Progress at 10%	\$ -
10	Deduct:	
11	Book Value of Transportation Equipment	<u>\$ 35,933</u>
12		
13	Full Cash Value	\$ 1,221,380
14	Assessment Ratio	<u>23%</u>
15	Assessed Value	280,917
16	Property Tax Rate	12.8467%
17		
18	Property Tax	36,089
19	Tax on Parcels	24
20		
21	Total Property Tax at Proposed Rates	<u>\$ 36,113</u>
22	Property taxes in the test year	<u>27,334</u>
23	Change in property taxes	<u>\$ 8,779</u>
24		
25		
26	Adjustment to Revenues and/or Expenses	<u>\$ 8,779</u>
27		
28		

Farmers Water Company
Test Year Ended September 30, 2007
Adjustment to Revenues and/or Expenses
Adjustment Number 3

Exhibit
Schedule C-2
Page 4
Witness: Bourassa

Line
No.

1

2 Water Testing Expense

3

4 Staff's Recommended Level of Water testing Expense

\$ 11,519

5

6 Adjusted Test Year Water Testing Expense

11,154

7

8

9 Increase(decrease) in Water Testing Expense

\$ 365

10

11

12 Adjustment to Revenue and/or Expense

\$ 365

13

14 SUPPORTING SCHEDULES

15 Staff Schedule CRM-8 - Operating Income Adjustment #3

16

17

18

19

20

Farmers Water Company
Test Year Ended September 30, 2007
Adjustment to Revenues and/or Expenses
Adjustment Number 4

Exhibit
Schedule C-2
Page 5
Witness: Bourassa

Line No.		
1		
2	<u>Repairs and Maintenance</u>	
3		
4	Staff's Recommended Level of Repairs & Maint. Expense	\$ 65,713
5		
6	Adjusted Test Year Repairs and Maintenance	<u>76,477</u>
7		
8		
9	Increase(decrease) in Water Testing Expense	<u>\$ (10,764)</u>
10		
11		
12	Adjustment to Revenue and/or Expense	<u>\$ (10,764)</u>
13		
14	<u>SUPPORTING SCHEDULES</u>	
15	Staff Schedule CRM-7 - Operating Income Adjustment #2	
16		
17		
18		
19		
20		
21		
22		
23		
24		
25		

Farmers Water Company
Test Year Ended September 30, 2007
Adjustment to Revenues and/or Expenses
Adjustment Number 5

Exhibit
 Rebuttal Schedule C-2
 Page 6
 Witness: Bourassa

Line No.					
1	<u>Income Tax Computation</u>				
2					
3					
4					
5					
6					
7	Taxable Income	\$	(91,579)	\$	104,543
8					
9	Taxable Income	\$	(91,579)	\$	104,543
10					
11					
12					
13	Income Before Taxes	\$	(91,579)	\$	104,543
14					
15	Arizona Income Before Taxes	\$	(91,579)	\$	104,543
16					
17	Less Arizona Income Tax	\$	(6,381)	\$	7,285
18	Rate =		6.97%		
19	Arizona Taxable Income	\$	(85,197)	\$	97,258
20					
21	Arizona Income Taxes	\$	(6,381)	\$	7,285
22					
23	Federal Income Before Taxes	\$	(91,579)	\$	104,543
24					
25	Less Arizona Income Taxes	\$	(6,381)	\$	7,285
26					
27	Federal Taxable Income	\$	(85,197)	\$	97,258
28					
29					
30					
31	FEDERAL INCOME TAXES:				
32	15% BRACKET	\$	(12,780)	\$	7,500
33	25% BRACKET	\$	-	\$	6,250
34	34% BRACKET	\$	-	\$	7,568
35	39% BRACKET	\$	-	\$	-
36	34% BRACKET	\$	-	\$	-
37					
38	Federal Income Taxes	\$	(12,780)	\$	21,318
39					
40					
41	Total Income Tax	\$	(19,161)	\$	28,602
42					
43	Overall Tax Rate		20.92%		27.36%
44					
45	Computed Income Tax at Proposed Rates Effective Rate	\$	(25,055)		
46					
47	Direct Adjusted Income Taxes		(25,727)		
48					
49	Increase (Decrease) in Income Tax Expense	\$	672		
50					

Farmers Water Company
Test Year Ended September 30, 2007
Computation of Gross Revenue Conversion Factor

Exhibit
Rebuttal Schedule C-3
Page 1
Witness: Bourassa

Line No.	Description	Percentage of Incremental Gross Revenues
1	Federal Income Taxes	20.39%
2		
3	State Income Taxes	6.97%
4		
5	Other Taxes and Expenses	0.00%
6		
7		
8	Total Tax Percentage	27.36%
9		
10	Operating Income % = 100% - Tax Percentage	72.64%
11		
12		
13		
14		
15	$\frac{1}{\text{Operating Income \%}}$ = Gross Revenue Conversion Factor	
16		1.3766
17		
18	<u>SUPPORTING SCHEDULES:</u>	<u>RECAP SCHEDULES:</u>
19		Rebuttal A-1
20		

Farmers Water Company
 Test Year Ended September 30, 2007
 Summary of Cost of Capital

Line No.		End of Test Year				End of Projected Year			
		Dollar Amount	Percent of Total	Cost Rate	Weighted Cost	Dollar Amount	Percent of Total	Cost Rate	Weighted Cost
5	Item of Capital								
6	Short-Term Debt	\$ -	0.00%	0.00%	0.00%	\$ -	0.00%	0.00%	0.00%
7									
8	Long-Term Debt	-	0.00%	0.00%	0.00%	-	0.00%	0.00%	0.00%
9									
10	Stockholder's Equity	260,593	100.00%	NM	0.00%	336,534	100.00%	NM	0.00%
11									
12	Totals	\$ 260,593	100.00%		0.00%	\$ 336,534	100.00%		0.00%
13									
14									
15									
16									
17									

SUPPORTING SCHEDULES:

Direct D-1
 Direct B-2

RECAP SCHEDULES:

Farmers Water Co.
Test Year Ended September 30, 2007
Revenue Summary
 With Annualized Revenues to Year End Number of Customers

Exhibit
 Rebuttal Schedule H-1
 Page 1
 Witness: Bourassa

Line No.	Meter Size		Company Present Revenues	Company Proposed Revenues	Dollar Change	Percent Change	Percent of Present Water Revenues	Percent of Proposed Water Revenues
1	5/8 Inch	Residential	\$ 319,061	\$ 414,140	\$ 95,079	29.80%	56.64%	54.53%
2	1 Inch	Residential	59,415	79,208	19,791	33.31%	10.55%	10.43%
3		Subtotal	\$ 378,476	\$ 493,345	\$ 114,869	30.35%	67.19%	64.96%
4								
5	5/8 Inch	Commercial	\$ 4,826	\$ 6,559	\$ 1,933	41.79%	0.82%	0.86%
6	1 Inch	Commercial	4,046	5,610	1,564	38.65%	0.72%	0.74%
7	1.5 Inch	Commercial	4,162	5,934	1,772	42.59%	0.74%	0.78%
8	2 Inch	Commercial	19,492	27,946	8,454	43.37%	3.46%	3.68%
9	3 Inch	Commercial	2,511	3,977	1,467	58.41%	0.45%	0.52%
10		Subtotal	\$ 34,837	\$ 50,027	\$ 15,190	43.60%	6.18%	6.59%
11								
12	1.5 Inch	Multi-Family	\$ 6,572	\$ 9,395	\$ 2,823	42.95%	1.17%	1.24%
13	2 Inch	Multi-Family	53,791	77,762	23,972	44.56%	9.55%	10.24%
14	6 Inch	Multi-Family	14,214	21,723	7,509	52.82%	2.52%	2.86%
15		Subtotal	\$ 74,577	\$ 108,880	\$ 34,303	46.00%	13.24%	14.34%
16								
17	5/8 Inch	Industrial	\$ 801	\$ 1,107	\$ 306	38.19%	0.14%	0.15%
18	1 Inch	Industrial	4,142	6,101	1,960	47.32%	0.74%	0.80%
19	4 Inch	Industrial	26,243	39,410	13,167	50.17%	4.66%	5.19%
20		Subtotal	\$ 31,186	\$ 46,618	\$ 15,432	49.49%	5.54%	6.14%
21								
22	2 Inch	Standpipe	\$ 10,271	\$ 19,881	\$ 9,610	93.57%	1.82%	2.62%
23	6 Inch	Standpipe	1,867	5,361	3,495	187.23%	0.33%	0.71%
24		Subtotal	12,137	25,242	13,105	107.97%	2.15%	3.32%
25								
26								
27	Total Revenues before Annualization		\$ 531,212	\$ 724,112	\$ 192,899	36.31%	94.31%	95.35%
28								
29								
30								
31								
32								
33								
34								
35								
36								
37								
38								

Farmers Water Co.
Test Year Ended September 30, 2007
Revenue Summary
With Annualized Revenues to Year End Number of Customers

Exhibit
Rebuttal Schedule H-1
Page 2
Witness: Bourassa

Line No.	Meter Size		Revenue Annualization			Percent Change	Percent of Present Water Revenues	Percent of Proposed Water Revenues
			Present Revenues	Proposed Revenues	Dollar Change			
1	5/8 Inch	Residential	\$ 12,134	\$ 15,258	\$ 3,124	25.75%	2.15%	2.01%
2	1 Inch	Residential	6,675	8,749	2,074	31.08%	1.185%	1.152%
3		Subtotal	\$ 18,809	\$ 24,007	\$ 5,198	27.64%	3.34%	3.16%
4								
5	5/8 Inch	Commercial	\$ 15	\$ 21	\$ 6	38.95%	0.00%	0.00%
6	1 Inch	Commercial	49	64	15	29.91%	0.01%	0.01%
7	1.5 Inch	Commercial	(492)	(689)	(198)	40.22%	-0.09%	-0.09%
8	2 Inch	Commercial	187	256	69	37.02%	0.03%	0.03%
9	3 Inch	Commercial	-	-	-	0.00%	0.000%	0.000%
10		Subtotal	\$ (240)	\$ (348)	\$ (108)	44.93%	-0.043%	-0.046%
11								
12	1.5 Inch	Multi-Family	\$ 958	\$ 1,335	\$ 377	39.39%	0.170%	0.176%
13	2 Inch	Multi-Family	2,114	2,983	869	41.12%	0.38%	0.39%
14	6 Inch	Multi-Family	-	-	-	0.00%	0.000%	0.000%
15		Subtotal	\$ 3,072	\$ 4,319	\$ 1,247	40.58%	0.545%	0.569%
16								
17	5/8 Inch	Industrial	\$ 53	\$ 73	\$ 20	37.58%	0.01%	0.01%
18	1 Inch	Industrial	(560)	(815)	(255)	45.52%	-0.099%	-0.107%
19	4 Inch	Industrial	-	-	-	0.00%	0.00%	0.00%
20		Subtotal	\$ (507)	\$ (742)	\$ (235)	46.35%	-0.09%	-0.10%
21								
22	2 Inch	Standpipe	\$ (1,886)	\$ (3,687)	\$ (1,802)	95.54%	-0.33%	-0.49%
23	6 Inch	Standpipe	\$ (123)	\$ (371)	\$ (248)	202.00%	-0.02%	-0.05%
24		Subtotal	\$ (2,009)	\$ (4,059)	\$ (2,050)	102.06%	-0.36%	-0.53%
25								
26								
27	Total Revenue Annualization		\$ 19,125	\$ 23,176	\$ 4,051	21.18%	\$ 0	\$ 0
28								
29	Total Revenues with Annualization		\$ 550,337	\$ 747,288	\$ 196,951	35.79%	97.29%	97.98%
30								
31	Misc. Serv. Rev.		7,790	7,790	-	0.00%	1.383%	1.026%
32	Annualization of Misc Service Revenues		4,295	4,295	-	0.00%	0.762%	0.566%
33	Unreconciled Difference to C-1		861	31	(830)	-96.40%	0.153%	0.004%
34								
35								
36	Total Revenues		\$ 563,283	\$ 759,404	\$ 196,121	34.82%	99.59%	99.57%
37								

Farmers Water Co.
Test Year Ended September 30, 2007
Analysis of Revenue by Detailed Class

Exhibit
Rebuttal Schedule H-2
Page 1
Witness: Bourassa

		(a)				Revenues		Proposed Increase	
Line		Average				Present	Proposed	Dollar	Percent
No.	Meter Size	Number of	at	Average		Rates	Rates	Amount	Amount
		Customers	9/30/2007	Consumption					
1	5/8 Inch Residential		1,811	5,898	\$	319,061	\$ 414,140	\$ 95,079	29.80%
2	1 Inch Residential		218	9,316	\$	59,415	\$ 79,206	\$ 19,791	33.31%
3	Subtotal		2,029						
4									
5	5/8 Inch Commerical		18	9,980	\$	4,626	\$ 6,559	\$ 1,933	41.79%
6	1 Inch Commerical		9	19,090	\$	4,046	\$ 5,610	\$ 1,564	38.65%
7	1.5 Inch Commercial		8	19,609	\$	4,162	\$ 5,934	\$ 1,772	42.59%
8	2 Inch Commercial		17	48,277	\$	19,492	\$ 27,946	\$ 8,454	43.37%
9	3 Inch Commercial		2	47,630	\$	2,511	\$ 3,977	\$ 1,467	58.41%
10	Subtotal		54						
11									
12	1.5 Inch Multi-Family		9	32,354	\$	6,572	\$ 9,395	\$ 2,823	42.95%
13	2 Inch Multi-Family		27	91,028	\$	53,791	\$ 77,762	\$ 23,972	44.56%
14	6 Inch Multi-Family		2	336,520	\$	14,214	\$ 21,723	\$ 7,509	52.82%
15	Subtotal		37						
16									
17	5/8 Inch Industrial		5	5,429	\$	801	\$ 1,107	\$ 306	38.19%
18	1 Inch Industrial		2	82,309	\$	4,142	\$ 6,101	\$ 1,960	47.32%
19	4 Inch Industrial		1	1,307,825	\$	2,511	\$ 3,977	\$ 1,467	58.41%
20	Subtotal		8						
21									
22	2 Inch Standpipe		8	70,890	\$	10,271	\$ 19,881	\$ 9,610	93.57%
23	6 Inch Standpipe		1	82,862	\$	1,867	\$ 5,361	\$ 3,495	187.23%
24	Subtotal		9						
25									
26	Totals		2,138						

(a) Average number of customers of less than one (1), indicates that less than 12 bills were issued during the year.

Farmers Water Co.
Test Year Ended September 30, 2007
Analysis of Average Bill by Detailed Class

Exhibit
 Rebuttal Schedule H-2
 Page 2
 Witness: Bourassa

Line No.	Meter Size and Class		(a) Average Number of Customers at 9/30/2007	Average Consumption	Average Bill		Proposed Increase	
			Present Rates		Proposed Rates	Dollar Amount	Percent Amount	
1	5/8 Inch	Residential	1,811	5,898	\$ 14.05	\$ 17.70	3.65	25.97%
2	1 Inch	Residential	218	9,316	\$ 21.51	\$ 28.22	6.71	31.19%
3		Subtotal	2,029					
4								
5	5/8 Inch	Commerical	18	9,980	\$ 19.97	\$ 27.43	7.46	37.34%
6	1 Inch	Commercial	9	19,090	\$ 37.50	\$ 50.72	13.22	35.26%
7	1.5 Inch	Commercial	8	19,609	\$ 42.35	\$ 58.31	15.96	37.67%
8	2 Inch	Commercial	17	48,277	\$ 96.16	\$ 130.45	34.29	35.66%
9	3 Inch	Commercial	2	47,630	\$ 100.59	\$ 157.55	56.96	56.63%
10		Subtotal	54					
11								
12	1.5 Inch	Multi-Family	9	32,354	\$ 63.38	\$ 86.95	23.57	37.18%
13	2 Inch	Multi-Family	27	91,028	\$ 166.70	\$ 236.74	70.04	42.02%
14	6 Inch	Multi-Family	2	336,520	\$ 592.26	\$ 901.80	309.54	52.26%
15		Subtotal	37					
16								
17	5/8 Inch	Industrial	5	5,429	\$ 13.37	\$ 18.69	5.31	39.74%
18	1 Inch	Industrial	2	82,309	\$ 141.81	\$ 207.90	66.09	46.60%
19	4 Inch	Industrial	1	1,307,825	\$ 2,186.91	\$ 3,284.14	1,097.23	50.17%
20		Subtotal	8					
21								
22	2 Inch	Standpipe	8	70,890	\$ 108.11	\$ 209.27	101.16	93.57%
23	6 Inch	Standpipe	1	82,862	\$ 143.58	\$ 412.39	268.81	187.23%
24		Subtotal	9					
25								
26		Totals	2,138					

(a) Average number of customers of less than one (1), indicates that less than 12 bills were issued during the year.

Farmers Water Co.
Test Year Ended September 30, 2007
Present and Proposed Rates

Exhibit
 Rebuttal Schedule H-3
 Page 1
 Witness: Bourassa

Line No.	Monthly Usage Charge for: Meter Size (All Classes):	Present Rates	Proposed Rates	Change	Percent Change
1	5/8 Inch	\$ 6.50	\$ 8.26	\$ 1.76	27.00%
2	3/4 Inch	6.50	8.26	1.76	27.00%
3	1 Inch	9.00	10.32	1.32	14.65%
4	1 1/2 Inch	13.00	20.64	7.64	58.75%
5	2 Inch	19.50	33.02	13.52	69.33%
6	3 Inch	25.00	66.04	41.04	164.16%
7	4 Inch	32.00	103.19	71.19	222.46%
8	6 Inch	40.00	206.38	166.38	415.94%
9	8 Inch	-	-	-	-
10					
11					
12					
13					
14					
15					
16					

Gallons In Minimum (All Classes)

Commodity Rates (Residential, Commercial, Industrial)	Block	(Per 1,000 gallons)	
		Present Rate	Proposed Rate
All Meter Sizes	0 gallons to 5,000 gallons	\$ 1.25	N/A
	5,001 gallons to 10,000 gallons	\$ 1.45	N/A
	over 10,000 gallons	\$ 1.65	N/A

Commodity Rates (Residential, Commercial, Industrial)	Block	(Per 1,000 gallons)	
		Present Rate	Proposed Rate
5/8 Inch Meter Residential	0 gallons to 4,000 gallons	N/A	\$ 1.45
	4,001 gallons to 10,000 gallons	N/A	\$ 1.92
	over 10,000 gallons	N/A	\$ 2.49
3/4 Inch Meter Residential	0 gallons to 4,000 gallons	N/A	\$ 1.45
	4,001 gallons to 10,000 gallons	N/A	\$ 1.92
	over 10,000 gallons	N/A	\$ 2.49

Farmers Water Co.
 Test Year Ended September 30, 2007
 Present and Proposed Rates

Line No.	Commodity Rates (Residential, Commercial, Industrial)	Block	(Per 1,000 gallons)	
			Present Rate	Proposed Rate
1				
2				
3				
4				
5	5/8 Inch Meter Commercial, Industrial	0 gallons to 10,000 gallons	N/A	1.92
6		over 10,000 gallons	N/A	2.49
7				
8	3/4 Inch Meter Commercial, Industrial	0 gallons to 10,000 gallons	N/A	1.92
9		over 10,000 gallons	N/A	2.49
10				
11	1 Inch Meter Residential, Commercial, Industrial	0 gallons to 12,500 gallons	N/A	1.92
12		over 12,500 gallons	N/A	2.49
13				
14	1.5 Inch Meter Residential, Commercial, Industrial	0 gallons to 25,000 gallons	N/A	1.92
15		over 25,000 gallons	N/A	2.49
16				
17	2 Inch Meter Residential, Commercial, Industrial	0 gallons to 40,000 gallons	N/A	1.92
18		over 40,000 gallons	N/A	2.49
19				
20	3 Inch Meter Residential, Commercial, Industrial	0 gallons to 80,000 gallons	N/A	1.92
21		over 80,000 gallons	N/A	2.49
22				
23	4 Inch Meter Residential, Commercial, Industrial	0 gallons to 125,000 gallons	N/A	1.92
24		over 125,000 gallons	N/A	2.49
25				
26	6 Inch Meter Residential, Commercial, Industrial	0 gallons to 250,000 gallons	N/A	1.92
27		over 250,000 gallons	N/A	2.49
28				
29				
30				
31				
32				
33	Standpipe (Bulk)	All gallons	\$ 1.25	\$ 2.49
34				
35				

Farmers Water Co.
Changes in Representative Rate Schedules
Test Year Ended September 30, 2007

Exhibit
Rebuttal Schedule H- 3
Page 3
Witness: Bourassa

Line		Present	Proposed
No.	<u>Other Service Charges</u>	<u>Rates</u>	<u>Rates</u>
1	Establishment	\$ 25.00	\$ 35.00
2	Establishment (After Hours)	\$ 25.00	\$ 50.00
3	Reconnection (Delinquent)	\$ 25.00	\$ 40.00
4	Reconnection (Delinquent and After Hours)	N/T	\$ 55.00
5	Meter Test (If meter reading correctly)	\$ 25.00	\$ 25.00
6	Hydrant Meter Deposit (refundable)	N/T	\$ 150.00
7	Deposit	*	*
8	Deposit Interest	*	2.00%
9	Re-Establishment (With-in 12 Months)	**	**
10	NSF Check	\$ 20.00	\$ 20.00
11	Deferred Payment, Per Month	N/T	1.50%
12	Meter Re-Read (if correct)	\$ 20.00	\$ 20.00
13	After hours service charge, per Rule R14-2-403D	N/T	Cost
14	Late Charge per month	N/T	1.50%
15	Meter Tampering Charge	N/T	Cost
16	Meter Box "Cut Lock" Charge	N/T	Cost
17	Meter Box Re-inspection	N/T	\$ 50.00
18			
19			
20			
21			
22	* PER COMMISSION RULE (R14-2-403.B)		
23	** Months off system times the minimum. PER COMMISSION RULE (R14-2-403.D)		
24			
25	N/T = No tariff.		
26			
27			
28	IN ADDITION TO THE COLLECTION OF REGULAR RATES, THE UTILITY WILL COLLECT FROM		
29	ITS CUSTOMERS A PROPORTIONATE SHARE OF ANY PRIVILEGE, SALES AND USE		
30	TAX. PER COMMISSION RULE (14-2-409.D 5).		
31	ALL ADVANCES AND/OR CONTRIBUTIONS ARE TO INCLUDE LABOR, MATERIALS, OVERHEADS,		
32	AND ALL APPLICABLE TAXES.		
33			
34			
35			

Farmers Water Co.
 Changes in Representative Rate Schedules
 Impact of Change in Tariff
 Test Year Ended September 30, 2007

Exhibit
 Rebuttal Schedule H-3
 Page 3.1
 Witness: Bourassa

Line No.	Other Service Charges	Present Rates	Proposed Rates	Increase in Charge	Number of Occurrences (a)	Proposed Revenues
1	Establishment	\$ 25.00	\$ 35.00	\$ 10.00	281	\$ 2,810
2	Establishment (After Hours)	\$ 25.00	\$ 50.00	\$ 25.00	6	150
3	Reconnection (Delinquent)	\$ 25.00	\$ 40.00	\$ 15.00	25	375
4	Reconnection (Delinquent and After Hours)	N/T	\$ 55.00	\$ 50.00	4	200
5	NSF Check	\$ 20.00	\$ 25.00	\$ 5.00	2	10
6	Meter Box Re-inspection	N/T	\$ 50.00	\$ 50.00	15	750
7	Totals					<u>\$ 4,295</u>

Line No.	Reconciliation of Other Service Charges	Present Rates	Number of Occurrences (a)	Present Revenues	Proposed Increase	Proposed Revenues
10	Establishment	\$ 25.00	281	\$ 7,025	\$ 2,810	\$ 9,835.00
11	Establishment (After Hours)	\$ 25.00	6	150	150	300
12	Reconnection (Delinquent)	\$ 25.00	25	625	375	1,000
13	Reconnection (Delinquent and After Hours)	N/T	4	-	200	200
14	NSF Check	\$ 20.00	2	40	10	50
15	NSF Check	N/T	15	-	750	750
16	Totals			\$ 7,840	\$ 4,295	\$ 12,135

17 Misc. Service Revenues Recorded During Test Year

\$ 7,790

18 Difference

\$ 50

19 (a) Estimates of Occurrences during the test year

Farmers Water Co.
Test Year Ended September 30, 2007
Service Charges
Meter and Service Line Charges

Exhibit
Rebuttal Schedule H-3
Page 4
Witness: Bourassa

<u>Line No.</u>		<u>Total Present Charge</u>	<u>Proposed Service Line Charge*</u>	<u>Proposed Meter Installation Charge*</u>	<u>Total Proposed Charge*</u>
1					
2					
3					
4					
5					
6	5/8 x 3/4 Inch	\$ 415.00	\$ 385.00	\$ 135.00	\$ 520.00
7	3/4 Inch	455.00	415.00	205.00	620.00
8	1 Inch	540.00	465.00	265.00	730.00
9	1 1/2 Inch	780.00	520.00	475.00	995.00
10	2 Inch	1,380.00	N/A	N/A	N/A
11	2 Inch / Turbine	N/A	800.00	995.00	1,795.00
12	2 Inch / Compound	N/A	800.00	1,840.00	2,640.00
13	3 Inch	1,935.00	N/A	N/A	N/A
14	3 Inch / Turbine	N/A	1,015.00	1,620.00	2,635.00
15	3 Inch / Compound	N/A	1,135.00	2,495.00	3,630.00
16	4 Inch	3,030.00	N/A	N/A	N/A
17	4 Inch / Turbine	N/A	1,430.00	2,570.00	4,000.00
18	4 Inch / Compound	N/A	1,610.00	3,545.00	5,155.00
19	6 Inch	5,535.00	N/A	N/A	N/A
20	6 Inch / Turbine	N/A	2,150.00	4,925.00	7,075.00
21	6 Inch / Compound	N/A	2,270.00	6,820.00	9,090.00
22	8 Inch	At Cost	At Cost	At Cost	At Cost
23	10 Inch	At Cost	At Cost	At Cost	At Cost
24	12 Inch	At Cost	At Cost	At Cost	At Cost

25

26 *Based on Staff update of typical service line and meter installation charges dated

27 February 21, 2008.

28

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4 One Arizona Center
5 400 East Van Buren
6 Phoenix, AZ 85004-2202
7 Attorneys for Farmers Water Co.

8
9
10 **BEFORE THE ARIZONA CORPORATION COMMISSION**

11 IN THE MATTER OF THE
12 APPLICATION OF FARMERS
13 WATER CO., AN ARIZONA
14 CORPORATION, FOR A
15 DETERMINATION OF THE
16 CURRENT FAIR VALUE OF ITS
17 UTILITY PLANT AND PROPERTY
18 AND FOR INCREASES IN ITS RATES
19 AND CHARGES FOR UTILITY
20 SERVICE.

DOCKET NO. W-01654A-08-0502

21
22 **CORRECTED REBUTTAL TESTIMONY OF**
23 **HEATHER TRIANA**
24 **ON BEHALF OF**
25 **FARMERS WATER CO.**
26
27
28

1 **I. INTRODUCTION AND QUALIFICATIONS**

2 **Q. PLEASE STATE YOUR NAME AND ADDRESS.**

3 A. My name is Heather Triana. My business address is 1525 East Sahuarita Road,
4 Sahuarita, AZ 85629-0007.

5 **Q. BY WHOM ARE YOU EMPLOYED AND WHAT IS YOUR POSITION?**

6 A. I am the Vice President of Finance and Treasurer for Farmers Investment Co.
7 Farmers Investment Co. is the parent of Farmers Water Co.

8 **Q. WOULD YOU DISCUSS YOUR EDUCATIONAL BACKGROUND AND**
9 **BUSINESS EXPERIENCE?**

10 A. I am a Certified Public Accountant. I received my MBA in 1998 in Production
11 Operations at Oakland University. I received my BS/BA in 1992 in Accounting at
12 Central Michigan University. My work experience is as follows:

- 13 • December 2001 to present – CFO, VP Finance, Treasurer, and Secretary of
14 Farmers Investment Co. and Farmers Water Co. (Responsible for all financial
15 activity for Famers Investment Co. and Farmers Water Co.).
- 16 • March 2000 to December 2001 – Controller of Walbro de Mexico, Nogales,
17 Sonora, Mexico (Oversaw both US and Mexican entity accounting departments –
18 Small Engines Supplier).
- 19 • November 1999 to March 2000 – Accounting Consultant for Walbro Engine
20 Management Auburn Hills, MI and Nogales, Sonora, Mexico (Troubleshoot
21 Accounting problems and inventory losses in Mexican facility – Small Engines
22 Supplier).
- 23 • March 1999 to November 1999 – Special Projects Accountant, Remedy
24 Corporation, Mt. View, CA (Oversaw restructure of AR Department and the
25 department's conversion of a new ERP system, and wrote company's accounting
26 policies and procedures. – Software Developer).
- 27 • August 1997 to March 1999 – Supervisor Corporate Accounting, Walbro
28 Automotive, Auburn Hills, Michigan. (Responsible for corporate accounting

1 department which handled worldwide consolidation of financials – Automotive
2 Supplier).

- 3 • June 1995 to August 1997 – Staff Accountant, Folmer, Rudzewicz & Co.,
4 Southfield, Michigan. (In-charge of audits of manufacturers and HUD clients as
5 well as prepared tax returns both individual and business. – CPA Firm)
- 6 • December 1992 to June 1995 – Walbro Automotive, Caro, MI. (General Ledger
7 account -- Automotive supplier).

8
9 **II. SUMMARY**

10 **Q. WOULD YOU SUMMARIZE YOUR TESTIMONY?**

11 A. My testimony will address two issues. The first is Staff's recommendation to
12 eliminate \$14,589 from salaries and wages. As set forth in the Rebuttal Testimony
13 of Tom Bourassa, Staff incorrectly characterized an additional \$10,330 as bonuses
14 for the Test Year and the appropriate amount of compensation that Staff is
15 classifying as a "bonus" should be \$4,259. My testimony will address why the
16 \$4,259 is not a bonus and should be included as part of the Company's Operating
17 Expenses as it represents a portion of the employee wages and, although is paid out
18 separately, it is budgeted as part of employee regular compensation.

19 The second issue involves Staff's recommendation that the Company submit a
20 report for corrective measures demonstrating how the Company will reduce water
21 loss to less than 10 percent for the Continental and Sahuarita Highlands water
22 systems. As explained below, due to accounting and meter reading errors in the
23 Test Year, unaccounted-for water appears to exceed 10 percent in those two water
24 systems. In fact, the Company has already corrected the accounting and meter
25 reading errors and has provided reports that show water loss for the Continental
26 and Sahuarita Highlands water systems for the eight months ending August 2009
27 for the 2009 calendar year are only 8.93 percent (1005 Hook-ups) and 0.12 percent
28 (24 Hook-ups), respectively.

1 **III. COMPENSATION EXPENSE SHOULD BE INCLUDED IN**
2 **OPERATING EXPENSES**

3 **Q. STAFF HAS RECOMMENDED DISALLOWANCE OF \$14,589 FROM**
4 **WAGES AND SALARIES, DOES FARMERS WATER CO. AGREE WITH**
5 **THIS ADJUSTMENT?**

6 A. No. As set forth in the Rebuttal Testimony of Tom Bourassa, Staff has incorrectly
7 included an additional \$10,330 of compensation that they have classified as
8 “bonuses” for the Test Year. The correct amount of compensation that Staff has
9 identified as “bonuses” should only be \$4,259.

10 **Q. SHOULD THE \$4,259 BE EXCLUDED FROM OPERATING EXPENSES**
11 **BECAUSE THIS AMOUNT REPRESENTS A DISCRETIONARY BONUS?**

12 A. No. The amount designated by Staff as a bonus of \$4,259 for the other Farmers
13 Water Co. employees is not a discretionary bonus. The Company has historically
14 paid the employees an additional payroll in December equal to one payroll period's
15 wages. When the Company changed its payroll dates from twice a month to every
16 other week, the Company determined that it would not penalize the employees by
17 reducing this check's amount and continues to use the same ratio of pay as if the
18 employees are paid bi-monthly. This amount, although paid separately, is part of
19 employee's base compensation.

20 **IV. NON-ACCOUNTABLE WATER DOES NOT EXCEED 10 PERCENT**

21 **Q. STAFF HAS RECOMMENDED THAT THE COMPANY SUBMIT A**
22 **REPORT FOR CORRECTIVE MEASURES DEMONSTRATING HOW**
23 **THE COMPANY WILL REDUCE WATER LOSS TO LESS THAN 10**
24 **PERCENT FOR THE CONTINENTAL AND SAHUARITA HIGHLANDS**
25 **WATER SYSTEMS. DO YOU AGREE WITH STAFF'S**
26 **RECOMMENDATION?**

27 A If the Company's water loss exceeded 10 percent in any of its water systems,
28 Farmers Water Co. would have no objection to such a recommendation. During
29 the Test Year, due to accounting and meter reading errors, unaccounted-for water
30 appears to exceed over 10 percent in the Continental and Sahuarita Highlands
31 water systems.

1 **Q. PLEASE EXPLAIN.**

2 A. Farmers Water Co. was transitioning from **Utility 2000** to **Billmaster** during the
3 last quarter of 2006 and the first quarter of Fiscal Year 2007. During this transition
4 some data was incorrectly assigned or duplicated. Unfortunately, the IT individual
5 who worked on this project is no longer with the Company. This hampered the
6 researching and retrieving of data. For the fourth quarter of 2006 (the first quarter
7 of Fiscal year 2007), the gallons pumped were originally recorded from a separate
8 set of readings taken at a different time period for the same month thereby making
9 the amount of original gallons pumped incorrect. In addition, some construction
10 water was either inadvertently assigned to the wrong system or incorrectly
11 recorded in the wrong month.

12 **Q. WHAT HAS THE COMPANY DONE TO CORRECT THESE**
13 **ACCOUNTING AND METER READING INCONSISTENCIES?**

14 A. Beginning in 2008, the Company has taken additional steps to insure the accuracy
15 of its water reports. All in-the-field readings are reviewed and checked for
16 anomalies. For example, when monthly meter readings are completed, an
17 "Exception Report" is immediately generated and the subject data is investigated.
18 Additionally, source readings are to be taken within the same time frame as the
19 meter readings for each system.

20 Farmers Water Co. reads meters on a monthly basis. The Company is in the
21 process of converting from manual entry into a hand-held unit to electronic
22 readings. Also, the company is replacing older non-electronic meters with
23 electronically-read meters.

24 The newer electronically-read meters measure to the gallon. Older meters yet to be
25 replaced will read in 10, 100 or 1000 gallon increments depending on size and type
26 of meter. When the conversion of all meters to electronic read is complete, all
27 meters will be read to the gallon.

28

1 Q. **BASED UPON THE COMPANY'S EFFORTS TO ACCURATELY**
2 **RECORD WATER DATA, WHAT IS THE WATER LOSS PERCENTAGES**
3 **FOR THE CONTINENTAL AND SAHUARITA HIGHLANDS WATER**
4 **SYSTEMS IN 2009?**

5 A. Attached as Exhibit A are charts my staff has prepared that show water loss for the
6 Continental and Sahuarita Highlands water systems through August 2009. Water
7 loss for those systems is only 8.93 percent and 0.12 percent, respectively.

8 Q. **GIVEN THE COMPANY'S CURRENT WATER LOSS DATA, DO YOU**
9 **BELIEVE IT IS NECESSARY FOR THE COMPANY TO SUBMIT A**
10 **REPORT OF CORRECTIVE MEASURES?**

11 A. Given the Company's corrective actions and based upon the water loss data for
12 2009, Farmers Water Co. does not believe such a report would be necessary.

13 Q. **DOES THAT CONCLUDE YOUR REBUTTAL TESTIMONY?**

14 A. Yes.

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EXHIBIT A

PWS 10049 ANNUAL CALENDAR YEAR 2009												
	Gallons Pumped			Total Gallons Pumped (1000's)	Construct.			Total Gals Accounted For/Sold (1000's)	Difference		+/- Slippage Percent	
	E-5A (1000's)	E-13A (1000's)	NP-2 (1000's)		Gallons Sold (1000's)	Gallons Sold (1000's)	Other Gals Sold/F-11 (1000's)		Gallons (1000's)	Difference Acre Feet		
Jan. 09	4347	6975	224	11546	10310	2	0	10312	1234	3.8	10.69%	
Feb. 09	3546	5684	174	9404	8538	3	0	8541	863	2.6	9.18%	
Mar. 09	4515	6367	224	11106	9609	8	697	10313	793	2.4	7.14%	
Apr. 09	6415	8844	326	15585	13058	4	1143	14205	1380	4.2	8.85%	
May. 09	7230	8685	386	16301	12559	27	2579	15165	1136	3.5	6.97%	
Jun. 09	6199	8005	379	14584	12185	60	1282	13528	1056	3.2	7.24%	
Jul. 09	7618	9981	456	18055	14691	10	1742	16443	1613	4.9	8.93%	
Aug. 09	8254	9079	453	17786	13041	2	2610	15653	2133	6.5	11.99%	
Sep. 09	0	0	0	0	0	0	0	0	0	0.0	#DIV/0!	
Oct. 09	0	0	0	0	0	0	0	0	0	0	#DIV/0!	
Nov. 09	0	0	0	0	0	0	0	0	0	0	#DIV/0!	
Dec. 09	0	0	0	0	0	0	0	0	0	0	#DIV/0!	

PWS 10414 ANNUAL CALENDAR YEAR 2009									
	Gallons Pumped S-28 (1000's)	Gallons Sold (1000's)	Construct. Gallons Sold (1000's)	Other Gals Sold/F-11 (e.g.-flush) (1000's)	Total Gals Accounted For/Sold (1000's)	Difference Gallons (1000's)	Difference Acre Feet	+/- Slippage Percent	
Jan. 09	123	90	0	0	90	33	0.101	26.71%	
Feb. 09	135	91	0	0	91	44	0.135	32.64%	
Mar. 09	236	104	180	0	284	-48	-0.146	-20.20%	
Apr. 09	165	153	0	0	153	12	0.038	7.39%	
May. 09	266	126	145	0	271	-5	-0.015	-1.80%	
Jun. 09	169	137	4	0	141	28	0.087	16.81%	
Jul. 09	126	201	0	0	201	-75	-0.232	-59.93%	
Aug. 09	218	197	8	0	205	12	0.037	5.55%	
Sep. 09	0	0	0	0	0	0	0.000	#DIV/0!	
Oct. 09	0	0	0	0	0	0	0.000	#DIV/0!	
Nov. 09	0	0	0	0	0	0	0.000	#DIV/0!	
Dec. 09	0	0	0	0	0	0	0.000	#DIV/0!	
TOTALS:	1438	1100	337	0	1436	2	0.005	0.12%	

Note: Negative numbers for Difference in Gallons is within storage capacity of 200,500 gallon storage tank.